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MEMORANDUM FOR: THE DIRECTOR

Attached for information is an insertion in the Congressional Record by Senator Pell of the 19 May editorial in the New York Times recommending a watch dog committee to keep tab on CIA. Pell expresses the hope that hearings will be held soon on S. J. Res. 77, which is Senator McCarthy's bill for a Joint Committee.

STAT

JOHN S. WARNER
Legislative Counsel

23 May 1962
(DATE)

FORM NO. 1 AUG 54 101 REPLACES FORM 10-101 WHICH MAY BE USED. (47)

opinion of Senator BYRD, neither individuals nor nations can spend themselves out of debt.

This, to New Frontiersmen, is old stuff and outmoded. President Kennedy in a speech in Milwaukee over the weekend called it a do-nothing policy. The President has called on Congress for great additional Federal expenditures and for great additional powers, which mean still greater Federal expenditures. These are the problems which confront Congress on the eve of an election. The argument of the administration is that its policies will lead to ever-expanding business, national production, and increasing Federal revenue. The administration is on a treadmill, apparently unwilling to slow down or get off. The question is, How long can this kind of thing continue?

SEES DOUBLE PERIL

Senator BYRD said the American people face two dangers to the value of the dollar—one from the domestic deficit of the Federal budget, and the other from the foreign deficit in our international balance of payments. "There was a $4 billion deficit (in our Federal budget) last year, there will be a $7 billion to $10 billion deficit this year, and there will be another deficit of $3 billion to $5 billion in the coming fiscal year," he continued. "The statutory Federal debt limit has been raised twice in the last 11 months. A third request is pending, and I shall oppose it. The (national) debt is approximately $300 billion. The administration estimates that its spending will raise it close to $308 billion in the coming year."

The Virginia Senator said the country is told by the administration the fiscal situation will be all right if the Federal budget is balanced over a cycle of years, and that this will be possible if the Federal Government will spend enough to raise the national production high enough to produce the necessary revenue.

"This is evil fiction," Senator BYRD declared. "It never has worked; it is not working now. * * * A prudent government would balance its budget by stopping nonessential expenditures. This is not being done. The hard fact is that continuing deficits ultimately end in bankruptcy. When a nation goes bankrupt, its assets are not taken over and sold to satisfy its debts. Its money becomes worthless; its economy disintegrates; its form of government falls and changes."

THE MAIN ISSUES

The big question is: Will the people pay attention to the warnings of Senator BYRD, in the face of the big promises and the big spending of President Kennedy? Further, will Congress pay attention and be more restrained when it comes to handling the administration's demands?

Senator BYRD told the Senate that no President in the history of the United States has asked Executive power such as is embodied in two proposals which Mr. Kennedy has before Congress today. Under one, which is pending in the Senate now, the President could spend public funds without appropriation. Under the other, he could cut taxes by Executive order. The first is contained in a $2.5 billion public works bill, which authorizes the President, when he believes it wise, to spend money which has been appropriated by Congress for other purposes. The second is a tax proposal, giving him authority to cut income taxes when he believes it wise to stimulate buying power.

"Both proposals," Senator BYRD insisted, "would undermine the Constitution which prohibits expenditures except in 'consequence of appropriations made by law,' and fixes the taxing power of the Government in the legislative branch. The President says he wants these powers for use in unemployment relief. Where is the emergency justifying such grants of power? * * * Is it a plan to speed up spending?" Senator BYRD declared that Congress could be called into session in any emergency, or remain in constant session, rather than place more power in the hands of the Executive.

"Use of the Federal whiplash on a segment of the Nation's industry in recent weeks shocked the country, but it should have surprised no one at this late date. The increasing dominance of the executive branch in the Federal Government is combined with the usurpation of power in a continuing line of decisions by the Warren Court."

THE TRADE EXPANSION ACT OF 1962

Mr. HARTKE. Mr. President, I rise today to express my deep concern over the President's proposed Trade Expansion Act of 1962. Indiana has a vital stake in any action which would affect trade, for 6 percent of Indiana's workers are completely dependent on exports for their living. The majority of these employees are engaged in manufacturing.

It is generally believed that Indiana is primarily an agricultural State, but as a matter of fact 62 percent of Indiana is urban. Manufacturing is the leading economic activity in Indiana and the largest source of employment for the State's labor force. There are several industrial areas in Indiana. Many of our large cities, such as Indianapolis, Gary, Fort Wayne, Evansville, South Bend, Terre Haute, Elkhart, and East Chicago, are great industrial centers. These tremendous centers of industry are a powerful source of economic strength for Indiana and for the Nation.

In 1960 Indiana ranked 10th in the Nation in the export of manufactured products with a total export value of $483.6 million. This $483.6 million was 3 percent of the Nation's total exports. The same year over 300 Indiana firms exported more than $25,000 in manufactured goods. These firms employed 310,259 Hoosiers or 52 percent of Indiana's total working force, in manufacturing.

It is evident, Mr. President, that the future of Indiana's exports of manufacturing is of great importance to the rest of the Nation; similarly the future of America's exports in manufacturing will have a terrific impact on Indiana's manufacturers. At present the United States exports more merchandise than it imports. In 1961 the surplus was $5 billion. As you know, this surplus is essential to the national security of America because it helps us pay for our military and economic aid and for other national commitments abroad.

In spite of a favorable balance of trade, however, the United States has been experiencing a deficit in its international accounts. Settlement of this deficit has led to an outflow of U.S. gold and dollars. To stem this outflow, it is essential that we increase our exports, thereby further increasing our trade surplus and helping us to pay our international commitments without having to use gold.

Trade also strengthens the United States and her allies against the economic warfare of the members of the Communist bloc. Thus, efforts which will increase international commerce will also create a more prosperous America and a stronger free world.

The farmers of Indiana, too, have a paramount interest in the future of American exports. Five hundred and ninety dollars of the annual income of each Indiana farmworker comes from the sale of farm products abroad. Sales to foreign agricultural markets bring $150 million to Indiana's total agricultural income. Mr. President, the farmers of Indiana and of our Nation as a whole would be adversely affected if, with all our present surplus, we should suddenly lose our export markets.

In the 1960 to 1961 crop year, Indiana's share of the U.S. total exports of agricultural products was $149.3 million; 15,700 Hoosier farmworkers, or 7.2 percent of all the workers on Indiana farms, were producing for export.

Sixty million acres of American cropland—1 out of every 6 acres harvested—product for export. American agricultural products are being exported at a record high of $5 billion annually. U.S. farmers need these exports as an important source of income. Foreign consumers need our exports as a significant source of food and clothing.

In the more prosperous countries of the world incomes are rising, and there exists an excellent opportunity for America to sell larger quantities of farm products, provided such countries maintain liberal trade policies that will permit U.S. agricultural commodities to enter and compete on equal terms with those of other suppliers. In the less prosperous countries American farm products obtained under such programs as food for peace are helping these countries in their economic development and simultaneously are increasing U.S. prospects for future commercial sales to them.

I am certain, Mr. President, that my colleagues are as eager as I that the farmers and manufacturers of our great Nation be allowed to continue to prosper from favorable trade conditions. The opportunity to insure these favorable conditions will soon be before the Senate. I sincerely trust that my distinguished colleagues will act in their wisdom to guarantee for America the continued prosperity and economic expansion through trade.

PROPOSED JOINT COMMITTEE ON INTELLIGENCE

Mr. PELL. Mr. President, I ask unanimous consent to have printed in the RECORD the excellent editorial in the New York Times of May 19, 1962, advocating the creation of a watchdog Joint Congressional Committee on Intelligence which would keep tabs on the CIA. We heard several months ago about the importance of separating intelligence collection from operation. Apparently, in spite of the Cuban fiasco and all we heard following it, these contradictory activities continue under the same roof.

I also hope that hearings on Senate Joint Resolution 77 will be held soon in order that this whole problem of a watchdog committee may be more fully investigated and that the Senate may be

Thailand had referred to this pact in a joint statement on March 6. The key portion of this statement gave U.S. assurances that this country regarded defense of Thailand as an obligation of the United States to that country, as well as a matter for action by SEATO.

An administration official said the additional elements consisted of 1,800 marines who will be landed at the Bangkok naval base at 10 a.m. Washington time tomorrow.

He said they are being moved in by units of the 7th Fleet.

Kennedy said the sending of additional U.S. forces to Thailand was considered desirable "because of recent attacks in Laos by Communist forces, and the subsequent movement of Communist military units toward the border of Thailand."

The President called a threat to Thailand a matter of grave concern to this country.

But he said he wished to emphasize that the dispatch of U.S. forces to the southeast Asian nation is "a defensive act on the part of the United States" and completely consistent with provisions of the United Nations Charter which recognizes that nations have an inherent right to take collective measures for self-defense.

Kennedy said that he had directed that the United Nations be notified of the actions this country is taking. He said, too, that "we are in consultation with SEATO governments on the situation."

Kennedy's announcement followed one in Bangkok by Premier Sarit Thanarat that Thailand and the United States had agreed to the stationing of U.S. troops in Thailand.

[From the Honolulu Advertiser, May 15, 1962]

SCHOFIELD'S WOLFHOUNDS ONCE AGAIN AT THE FRONT

(By Scott Stone)

When the United States decided to leave the 27th Infantry in Thailand because of the Laos crisis, it put one of the most colorful units in the entire Army back in its accustomed place—at the front.

From Siberia, where the "Wolfhounds" picked up their nickname, to the steaming jungles of southeast Asia, neither geography nor climate nor mission have unduly disturbed the 61-year-old unit.

In 1918 the United States and several other nations sent troops to Siberia to fight the Bolsheviks. During its 2 years there the 27th was likened to the Russian borzoi—Wolfhound—so gentle to friends, so vicious toward enemies.

The name caught on, became the first nickname to be made an official part of the unit designation. They also picked up a motto: "Nec Aspera Terrent," meaning "Nor hardships do they fear."

In 1941 the 27th helped prepare the defenses of Oahu, then went off to combat in Guadalcanal, northern Solomons, and in Luzon, winning decorations and adding to their reputation.

After the war, in Japan, the Wolfhounds invaded Holy Name Orphanage and opened their hearts to the children. To date the men have donated nearly a third of a million dollars to keep the orphanage going and the children content.

A sightless youngster at the orphanage once wrote the Wolfhounds, "I feel so sorry for the other children who have only one father. I have so many."

When hords of Communist troops raced across Korea's 38th Parallel in June 1960, the Wolfhounds got ready for action again and in July the Wolfhounds were engaged in the professional soldier's occupation. Outnumbered but never outfought, the Wolfhounds came out of the bitter Korean fighting with four Distinguished Unit Citations from the United States and four Presidential Unit Citations from the Republic of Korea.

The unit took part in 10 campaigns in Korea, then returned to Schofield Barracks and was reorganized into a battle group under the Army's pentomic structure of five battle groups within a division.

As part of the Schofield-based 25th Infantry Division, the Wolfhounds have spent their time in Hawaii in jungle and guerrilla warfare training. The present commander of the unit is much-decorated Col. William A. McKean, 42, of Jacksonville, Fla.

[From the Honolulu Advertiser, May 15, 1962]

KEEP SWAMP, CITY URGED

Prompt action to acquire Kawainui Swamp for future park development is "imperative," says the League of Women Voters of Honolulu.

The league reiterated its support of the proposed Kawainui regional park in a letter to councilmen, who are debating whether to buy the 740-acre property or release it for subdivision development.

A decision is expected at the council's May 29 meeting when a resolution authorizing the administration to apply for Federal assistance will be presented.

The league said:

"A vital facet of good planning is the preservation of open, green areas. Good planning will make provision for the acquisition of open areas before, not after, development has taken place."

The letter cited Kawainui Swamp's strategic location mauka of Kailua between the approaches to the Pali and Wilson tunnels.

"This site is uniquely suited to the development of inland water recreational facilities, providing an additional tourist attraction," it said.

The league also argued that since Oahu's housing emergency has passed, the council should feel no obligation to clear the way for the proposed Trousdale Construction Co. subdivision.

"Subdividers have already committed themselves for more property than present demands require," councilmen were told.

The windward Oahu chapter of the league is one of the dozen Kailua organizations which have joined in arranging a public meeting to rally support for the park idea.

The meeting will be held at 7:30 tomorrow at Kailua High School.

ONE OF EVERY FIVE RESIDENTS OF THE UNITED STATES IS OF FOREIGN STOCK

Mr. SALTONSTALL. Mr. President, recently I made a brief statement on the Senate floor regarding the need for updating our immigration laws. The main purport of my remarks was that the 1960 rather than the 1920 census should be utilized in determining national quotas and that new quotas should be substituted for those presently prescribed. I said that—

Of the 2.5 million immigrants to this country during the 1950's, only 1 million were admitted under the provisions of the 1952 Immigration Act. The majority, 1.5 million, were nonquota entering by means of special supplementary legislation of the Congress.

Congressman WALTER called to my attention the fact that this statement unfortunately conveys the improper impression that all nonquota immigration has occurred under special legislation rather than under the provisions of the 1952 basic immigration code. I agree that such is not the case. Factually, during the fiscal years 1953 to 1961 the total number of quota immigrants was 844,281. Of the 1,471,906 nonquota arrivals in the same period, 1,173,911 qualified under provisions of the 1952 code and 297,995 were admitted under special legislation. I am grateful to Congressman WALTER, because I want to be accurate.

According to the 1960 census figures, one out of every five residents of the United States is either foreign born or native born of mixed foreign and native parentage. The slightly more than 34 million persons in the Census Bureau's foreign stock category include nearly 10 million foreign born and more than 24 million of native birth, with at least one parent born abroad. This means that many of these American citizens still have relatives or members of their own families abroad whom they are anxious to have join them in the United States. Relying on the 1920 rather than the 1960 census as the basis for determining national quotas adds to the difficulty of these people in getting their relatives and members of their own families on the quota lists of the countries. This is particularly true of Italy and Greece. Consequently, I believe that the 1960 census should be made the basis of determining quotas rather than one which is 40 years old.

There are, of course, other amendments of the law that may be properly promoted, but in my opinion if the latest census figures were used it would be much fairer to American citizens of certain nationalities who are seeking to be reunited with their loved ones.

FATEFUL FELLOW TRAVELERS

Mr. WILLIAMS of Delaware. Mr. President, I ask unanimous consent to have printed in the RECORD an article as written on May 15, 1962, by Mr. Gould Lincoln, entitled "Fateful Fellow Travelers." In his article Mr. Lincoln pays a well-deserved tribute to the Senator from Virginia [Mr. BYRD] with respect to his attempt to preserve some degree of fiscal sanity at the national level and his continued fight against an overconcentration of bureaucratic power.

There being no objection, the article was ordered to be printed in the RECORD, as follows:

FATEFUL FELLOW TRAVELERS

(By Gould Lincoln)

Big spending by the Kennedy administration is a fellow traveler of its big power grab. Senator HARRY F. BYRD, of Virginia, chairman of the important Senate Finance Committee which handles all tax legislation and also of the Joint Committee on Reduction of Nonessential Federal Expenditures, has tackled both issues in speeches to the Senate and to the Delaware Bankers Association. In his opinion, if the administration does not change its financial and governmental policies, the American people are in danger of great inflation, devaluation of the dollar, and indeed, of drastic changes in their Government and freedom, such as has followed in the footsteps of unsound financing in other nations. Americans are not encouraged to tighten their belts but to spend more. And the Federal Government sets the spending pace for them. In the

able to have the opportunity to arrive at an informed judgment concerning it.

There being no objection, the editorial was ordered to be printed in the RECORD, as follows:

SEQUEL TO THE POWERS CASE

John A. McCone, vigorous new director of the Central Intelligence Agency, has been demonstrating as head of CIA the strong leadership and quick comprehension which all those who knew him had anticipated.

Yet there are, inevitably, carryovers from the past which still leave disquieting memories. One of these is the case of Francis Gary Powers, the pilot of the U–2 high-flying plane lost over Soviet Russia in 1960. The carefully staged and well-greased arrangements for Powers' public appearance before the Senate Armed Services Committee a few weeks ago did little to allay the doubts raised by the inept handling at the time of the U–2 incident.

Questions are still being asked, and the lessons of the U–2 which should have been underscored after Powers' return remain hazy and confused. The questions are many and publicly unanswered: What were Powers' orders about the destruction of his plane? Why did the Government launch a cock-and-bull cover story when the U–2 disappeared? Was Powers really ordered to cooperate with his captors? Is it the Government's belief that the U–2 was actually damaged by a Soviet rocket? And so on.

The lessons, which should have been sharply drawn by the Senate hearing, have been fuzzed up and forgotten. But they are plain enough.

The first is that the qualifications possessed by a competent technician, no matter how expert, are not alone sufficient for a job of such risks and importance as that of Powers.

The second lesson is that high pay is not an adequate motivational reward for the kind of risks Powers and his comrades took. A man will die for his country and for the belief in what he is doing, but money cannot purchase this emotional resolve.

The third lesson is that the CIA should have been better prepared for what did happen than our heavy-handed fumbling at the time indicated. It is quite true that the CIA was not alone in its mistakes. Government bureaucracy, crossed purposes, and some poor judgment contributed to making a bad situation worse. But the CIA has had in the past too much of a history of free wheeling.

Congressional control is even more important for a secret intelligence agency than it is for the military. That control has been too loose in the past. There is one ready way to remedy it—the creation of a watchdog committee of both houses of Congress—a Joint Congressional Committee on Intelligence, which could monitor CIA operations just as the Joint Committee on Atomic Energy watches over the AEC.

TAX BILL—OPPOSITION TO WITHHOLDING TAX ON INTEREST AND DIVIDENDS

Mr. BYRD of Virginia. Mr. President, I have prepared a statement relating to the tax bill—H.R. 10650—which is now under consideration by the Senate Finance Committee. I ask unanimous consent to have this statement printed in the body of the RECORD as a part of my remarks at this time.

There being no objection, the statement was ordered to be printed in the RECORD, as follows:

STATEMENT OF SENATOR BYRD OF VIRGINIA

I have the honor of being chairman of the Senate Finance Committee. In this position I usually refrain from announcing my position on legislation pending in the committee until the committee has acted. I am now constrained by current circumstances and long experience with Federal tax legislation to make this statement at this time; and I do so in my own right as an individual Senator from Virginia.

I shall oppose administration proposals in the pending tax bill to withhold 20 percent in personal income taxes on interest and dividends, and to give a 7- or 8-percent tax credit to segments of business for investment in new machinery and equipment.

I have reached this firm position with respect to these two provisions in the bill after fullest consideration of views expressed by witnesses in exhaustive hearings, and those set forth in thousands of communications from the general public.

I have given closest possible study to statements in behalf of the administration's recommendations, including those by the President in his press conference of May 9 and those made by the Secretary of the Treasury before the Finance Committee and elsewhere.

In addition, I have called on my own experience, and knowledge of existing authority and facilities which had better be fully employed to curb tax evasion and revise depreciation credit before we resort to the withholding and tax credit legislation now proposed.

Members of Congress have been placed under tremendous pressure by representatives of the administration pressing for enactment of these proposals, and by citizens throughout the Nation overwhelmingly urging their rejection.

The hearings on the bill—which started April 2 and continued until May 11—have now been concluded. And at this point, under circumstances outlined, I am making this statement at this length to state my individual position with respect to the withholding and tax credit provisions in the bill, and describe in some detail the consideration leading to them.

Generally, the reasons for the conclusions I have reached may be summarized in a measure, and this I have attempted to do. But in view of the extraordinary interest demonstrated with respect to these two proposals, I shall include also additional detail for further consideration if it is desired by those who may be interested in this legislation.

I oppose enactment of the withholding proposal at this time for numerous reasons including:

1. Withholding taxes on interest and dividends cannot be compared with withholding taxes on salaries and wages; its administration would be terribly complex, if not impracticable and unworkable.

2. It would, by its inherent deficiencies, overtax people for extended periods, and impose hardship or inconvenience not only on taxpaying citizens but also on institutions and businesses used by the Government to collect the taxes.

3. Respect for our tax system must be maintained. It is necessarily complex enough. Unnecessary confusion must be avoided. The agitating characteristics of this proposal are already clear from public reaction. Tax evasion cannot be condoned, but this withholding proposal should be enacted only as a last resort.

4. An alternative is available, and it should first be given full trial. The Internal Revenue Service is now assigning numbers to taxpayers to eliminate identification difficulties, and at the same time it is installing computers to show currently what taxpayers owe the Government and vice versa. This combination should and will provide information for effective curtailment of tax evasion.

When the so-called identifying numbers bill was presented to the Senate by the Senator from Virginia and passed late on the night that Congress adjourned last September, Treasury officials advised me that the following statement could be made with accuracy on the floor of the Senate:

"This would be the biggest loophole closing bill in history; that it would increase Federal revenue by $5 billion; and that when used in the computers, those avoiding taxes could be identified and compelled to pay."

In response to questions during his testimony on the pending bill, the Secretary of the Treasury Douglas Dillon, on May 10, confirmed the fact that:

"With identifying numbers and the computer systems, the Internal Revenue Service could obtain information necessary to levy proper taxes on interest and dividends, and with that information the Government's remaining job was to collect the taxes. Secretary Dillon's only substantial reservation was that additional agents would be needed."

I am convinced that in the interest of good government the numbers-computer systems should be thoroughly tried before we resort to the administration's plan for withholding taxes on interest and dividends, which is certain to be accompanied by widespread confusion and considerable hardship.

If there is need to have more complete reporting—by banks and businesses—of information on income from interest and dividends, and heavier penalties for tax avoidance in these areas, I shall offer amendments providing for both.

Under terms of the pending bill, this withholding provision would not be effective until January 1, 1963. The complexities involved make it doubtful as to whether this withholding plan could be put into operation before 1964. The Secretary of the Treasury has testified that the numbers-computer systems would be in full operation during 1965–66; and in my judgment, if the effort were made, they could be in effective operation by 1964.

If, after reasonable trial in full operation, it is found that the numbers-computer systems do not close the loophole through which taxes on interest and dividends are being evaded, avoided or overlooked, withholding can be adopted. But the numbers-computer systems should have a thorough trial.

I oppose enactment of the tax credit proposal in the pending bill also for numerous reasons, including the facts that:

1. It is wrong in principle. It is in the nature of a Government payment before the fact instead of a credit for an accomplished fact.

2. It is a subsidy in the nature of a windfall to be given to businesses which comply with a Government policy.

3. It is discriminatory in its application among various businesses, even among those similar in kind. Incentive is a stated purpose of the proposal, but it would be retroactive to last January 1, and it is difficult to understand how the provisions would be an incentive for investments made before it is enacted. It would be a bonanza for certain corporations which could reach $600 million.

4. An alternative is available. The Government has the authority, and belatedly is now taking action to modernize Internal Revenue regulations to provide realistic depreciation credit for plant and equipment.

These observations are expanded, and others are set forth, in the following sections of this statement.

WITHHOLDING ON DIVIDENDS AND INTEREST

All taxpayers should bear their fair share of the tax burden. Over the years we have

searched for feasible means of withholding on interest and dividends. I had hoped the pending administration proposal would meet the difficulties. This has not been done, and I have concluded that the legislation should not be adopted at this time.

My present view is attributable primarily to two facts: First, the Treasury Department has not come up with a workable system of withholding. The proposal neither removes the hardships for the small shareholder or depositor who owes little or no tax, nor is it a workable system for the banks and corporations paying the interest and dividends. Second, I am convinced that the Treasury has not as yet made full use of the new social security numbering bill we passed last year nor automatic data processing, which is so closely interrelated with the numbering bill. As I point out, I believe that with an extension of the application of information returns, there is a good possibility of collecting the tax on the presently nonreported dividends and interest without imposing the burdens apparently inherent in a withholding system.

The President in his recent news conference has said that this is not a new tax and, of course, it is not—but it would be a new way of collecting it. And unless refunds are promptly made it could result in a tax increase. The President said that it will not take money unjustly from honest taxpayers—but it will unless they have no tax liability and file exemption certificates. (If they have tax liability and can file quarterly refund claims, they are deprived of the use of their own money for anywhere from 1 to 4 months.) He has said that it would not create a mountain of red tape—but I believe he will change his mind when the Internal Revenue Service undertakes the job of processing 8 million or more exemption certificates and millions of quarterly refunds. The President said it will not harm the elderly, the widows and orphans and others of low income—but these are the very groups which owe little or no tax and must choose between the exemption and refund provisions. Even if they choose correctly, they are likely to be deprived of the use of their income for a time. Unfortunately, they are likely also to be the ones who through lack of information will not get back what the Government justly owes them.

Impracticable or unworkable

Withholding on dividends and interest has been represented to us as being a simple system for both the taxpayer and the payor of dividends or interest. We have been told that the problems of the aged, the children, and the others who owe little or no tax have been provided for, with the result that there are no hardships under the bill. We also have been told that wage and salary earners are withheld upon and therefore why shouldn't withholding also apply for those who receive dividends and interest.

The very substantial opposition which individuals throughout the country have expressed to withholding on dividends and interest, through thousands upon thousands of letters to their Congressmen and Senators, should be ample evidence that there must be something wrong with the administration proposal. The testimony before the Senate Finance Committee has convinced me that what is wrong with the proposal is that it is neither simple in operation nor free of substantial hardship for broad groups of taxpayers. I also am convinced that the system proposed contains many avoidance possibilities which have been glossed over by the administration.

The exemption certificates provided under the bill have been held out as being the major means by which hardship is removed under the bill. These exemption certificates, however, may be filed only by those who have no tax liability whatsoever. This means that exemption certificates may be filed by most youngsters and also by the elderly who had no tax liability. However, many others, both in the elderly category and among younger people will be faced with substantial hardship under the bill because of overwithholding on dividends and interest. Even those who can file exemption certificates, however, (unless they are under age 18) must state under penalty of perjury, that they expect to owe no tax for the coming year. Won't many conscientious persons who either in fact turn out to owe no tax, or little tax, feel that they cannot sign such a statement before the year even commences and therefore won't they effectively be deprived of the use of the exemption certificate?

For individuals expecting to have any tax liability, quarterly claims for refunds must be filed if they expect to have the overwithheld amounts returned during the year in which the withholding occurs. Those who file these quarterly claims can expect a delay of at least 3 or 4 weeks before they receive back the overwithheld amounts, and may have to wait as much as 3 or 4 months before the withheld amounts are returned. This deprives them of the use of these funds as living expenses or as sources of investment during the interval. I believe it is this aspect of the proposed witholding system which makes so many individuals consider that withholding on dividends and interest in effect constitutes a new tax.

This quarterly refund claim which must be filed (or verified) by the individual four times a year is far from a simple calculation. The complexities of this are shown on page 91 of the House committee report on this tax bill. However, in addition to the 19 items listed in that calculation, the taxpayer must list in detail the source of each separate amount of dividend or interest income which he receives. Finally, he must also list all of the same material all over again in a tax return filed at the end of the year, in order to receive his refund for the fourth quarter. Although the taxpayer may have to fill out the refund claim only once and then merely verify the figures sent to him in the two subsequent quarters, this will only be true if his dividend or interest income and other income remains exactly as anticipated. Otherwise, new calculations must be made each quarter.

It should also be noted that the quarterly refund provided by the bill, as passed by the House of Representatives, does not allow for all cases under which overwithholding may arise. It does not, for example, make any allowance for the $50 dividend exclusion ($100 exclusion on many joint returns) for the 4-percent dividend credit, and for the excess of itemized deductions over a standard deduction. Moreover, no quarterly refund at all may be filed by a single individual with more than $5,000 of gross income or a married couple with more than $10,000 of gross income.

While the exemption certificates and quarterly refunds do not resolve the hardship problems for the shareholders or depositor, they nevertheless will present many compliance problems for the corporate and bank payers of the dividends and interest. The corporations and banks will have to maintain two files of stockholders or depositors. In the case of stock, the corporation must also be prepared to shift stockholdings back and forth between these two files as it is purchased and sold or as exemption certificates are issued. Moreover, special problems will arise where stock is sold just before a dividend date by someone who has filed an exemption certificate to someone who has not, if the stock certificate has not actually been delivered to the corporation before the dividend date. Moreover, in order to use exemption certificates at all, the taxpayers will have to forego the convenience of leaving stock in their brokers' names.

Although not touched upon by the Treasury Department in its explanation of withholding before the Finance Committee, there also will be serious administrative problems for the Internal Revenue Service as a result of the use of exemption certificates and quarterly refunds. These, if not policed very closely by the service, can lead to substantial tax evasion. There is no assurance, for example, that only those who reasonably expect no tax liability will file exemption certificates unless these certificates, representing at least 8 million taxpayers, are checked by the Internal Revenue Service. Moreover, these will not be easy to check because many of them will represent persons not required to file tax returns so there frequently will be no returns to match them against.

Similarly, since the individual when he files a quarterly refund need submit no proof of the receipt of dividend or interest payments, here too there is ample opportunity for tax evasion and fraud as well as unintentional mistakes. These also must be checked in detail and compared with the amount shown on final returns if the purpose of the legislation is to be fully accomplished. In fact, it is entirely possible that some taxpayers might file exemption certificates, file quarterly refund claims and still claim refunds on their final returns at the end of the year, all with respect to the same dividend or interest payment or with respect to no dividend or interest payment at all. While the Internal Revenue Service through sample auditing may be able to control this form of tax evasion and unintentional errors, I believe it will require no small enforcement effort.

Another source of confusion under the Treasury proposal is the so-called grossup procedure the service intends to follow. We are told that it is possible to do away with the necessity of giving receipts to the interest or dividend recipients under the proposal because taxpayers can grossup their dividends and interest on their tax returns. Although the arithmetic of grossup may be correct, it is likely to lead to many problems. Taxpayers will almost certainly get mixed up between the interest and dividend payments which they are required to grossup and those which they are not, with the result that this will constitute a substantial source of errors on tax returns.

This omission of some forms of interest from a withholding system not only will lead to confusion on the part of the taxpayers as to how to treat interest on their tax returns but will also create favored categories of investment—those not subject to withholding. Under the bill withholding does not apply, for example, to interest on mortgages, interest on debt held by individuals and interest paid in the form of discounts. This means that such forms of investment will become more attractive than other forms of investment which are subject to withholding, such as bank account interest and Government bonds.

I have dealt here only with the problems of withholding on dividends and interest for individuals. Many more are involved in setting up a withholding system for dividend and interest payments going to corporations. This clearly is useless since the withheld amounts are immediately refunded to the corporations without regard to their tax liability. Similarly, problems are raised in connection with the application of the dividend and interest withholding system in the case of trusts, partnership investment clubs, mutual funds, etc.

Comparison with wages and salaries

Much has been said to the effect that wages and salaries are subject to withhold-

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S. J. RES. 77

IN THE SENATE OF THE UNITED STATES

APRIL 27, 1961

Mr. MCCARTHY (for himself, Mr. ANDERSON, Mr. MORSE, Mr. CLARK, Mr. METCALF, Mr. BURDICK, Mr. BARTLETT, Mr. MCNAMARA, Mr. HUMPHREY, Mr. CARROLL, Mr. LONG of Missouri, Mr. MOSS, Mr. MCGEE, Mr. TALMADGE, Mr. HICKEY, Mr. CASE of South Dakota, Mr. PELL, Mr. PROUTY, Mr. YOUNG of Ohio, Mr. HART, and Mr. WILLIAMS of New Jersey) introduced the following joint resolution; which was read twice and referred to the Committee on Foreign Relations

JOINT RESOLUTION

To establish a Joint Committee on Foreign Information and Intelligence.

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) there is hereby established a joint congressional committee to be known as the Joint Committee on Foreign Information and Intelligence (referred to in this joint resolution as the "joint committee"), to be composed of seven Members of the Senate appointed by the President of the Senate, and seven Members of the House of Representatives

appointed by the Speaker of the House of Representatives. In each instance not more than four Members shall be appointed from the same political party.

(b) Vacancies in the membership of the joint committee shall not affect the power of the remaining members to execute the functions of the joint committee, and shall be filled in the same manner as in the case of the original selection.

(c) The joint committee shall select a chairman and a vice chairman from among its members at the beginning of each Congress. The vice chairman shall act in the place and stead of the chairman in the absence of the chairman. The chairmanship shall alternate between the Senate and the House of Representatives with each Congress, and the chairman shall be selected by the members of the joint committee from the House entitled to the chairmanship. The vice chairman shall be selected in the same manner as the chairman, except that the vice chairman shall be selected by the members of the joint committee from the House not entitled to the chairmanship.

(d) The joint committee may appoint and fix the compensation of such experts, consultants, technicians, and clerical and stenographic assistants as it deems necessary and advisable.

(e) The joint committee is authorized to utilize the services, information, facilities, and personnel of the executive departments and establishments of the United States.

(f) The joint committee is authorized to classify information originating within the joint committee in accordance with standards used generally by the executive branch of the Federal Government for classifying restricted data or defense information.

(g) The joint committee shall keep a complete record of all committee actions, including a record of the votes on any question on which a record vote is demanded. All committee records, data, charts, and files shall be the property of the joint committee and shall be kept in the offices of the joint committee, or such other places as the joint committee may direct, under such security safeguards as the joint committee shall determine to be in the interest of national security.

(h) The joint committee may make such rules respecting its organization and procedures as it deems advisable, but no measure or recommendation shall be reported from the joint committee unless a majority of the members thereof assent.

SEC. 2. (a) The joint committee shall make continuing studies of—

(1) the activities of each information and intelligence agency of the United States,

(2) the problems relating to the foreign information and intelligence programs, and

(3) the problems relating to the gathering of information and intelligence affecting the national security, and its coordination and utilization by the various departments, agencies, and instrumentalities of the United States.

(b) Each information and intelligence agency of the United States shall give to the joint committee such information regarding its activities as the committee may require.

(c) As used in this joint resolution, the term "information and intelligence agency of the United States" means the United States Information Agency, the Central Intelligence Agency, and any unit within any of the executive departments or agencies of the United States conducting foreign information or intelligence activities (including any unit within the Departments of State, Defense, Army, Navy, and Air Force, but not including the domestic operation of the Federal Bureau of Investigation).

SEC. 3. All bills, resolutions, and other matters in the Senate and House of Representatives relating primarily to any information and intelligence agency of the United States

or its activities shall be referred to the joint committee. The members of the joint committee who are Members of the Senate shall, from time to time, report to the Senate, and the members of the joint committee who are Members of the House of Representatives shall, from time to time, report to Workers' Compensation Act when that Act was administered the House, by bill or otherwise, their recommendations with respect to matters within the jurisdiction of their respective Houses which are—

(1) referred to the joint committee, or

(2) otherwise within the jurisdiction of the joint committee.

(b) In carrying out its duties under this joint resolution, the joint committee, or any duly authorized subcommittee thereof, is authorized to hold such hearings, to sit and act at such times and places, to require, by subpena or otherwise, the attendance of such witnesses and the production of such books, papers, and documents, to administer such oaths, to take such testimony, to procure such printing and binding, and to make such expenditures as it deems advisable. Subpenas may be issued over the signature of the chairman of the joint committee, or by any member designated by him, or by the joint committee, and may be served by any person designated by such chairman or member.

SEC. 4. The expenses of the joint committee shall be paid from the contingent fund of the Senate from funds appropriated for the joint committee upon vouchers approved by the chairman. The cost of stenographic services in reporting such hearings as the joint committee may hold shall be paid in accordance with the established rules of the Senate. Members of the joint committee, and its employees and consultants, while traveling on official business for the joint committee, may receive either the per diem allowance authorized to be paid to Members of Congress or its employees, or their actual and necessary expenses if an itemized statement of such expenses is attached to the voucher.

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JOINT RESOLUTION

To establish a Joint Committee on Foreign Information and Intelligence.

By Mr. McCARTHY, Mr. ANDERSON, Mr. MORSE, Mr. CLARK, Mr. METCALF, Mr. BURDICK, Mr. BARTLETT, Mr. MCNAMARA, Mr. HUMPHREY, Mr. CARROLL, Mr. LONG of Missouri, Mr. MOSS, Mr. MCGEE, Mr. TALMADGE, Mr. HICKEY, Mr. CASE of South Dakota, Mr. PELL, Mr. PROUTY, Mr. YOUNG of Ohio, Mr. HART, and Mr. WILLIAMS of New Jersey

APRIL 27, 1961

Read twice and referred to the Committee on Foreign Relations

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